

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7431

BILL NUMBER: HB 1401

NOTE PREPARED: Jan 1, 2005

BILL AMENDED:

SUBJECT: CEDIT For Property Tax Relief.

FIRST AUTHOR: Rep. Yount

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that a county may deposit all or a part of the County Economic Development Income Tax (CEDIT) revenue in the Property Tax Replacement Fund (PTRF) for Property Tax Replacement Credits (PTRC).

Effective Date: July 1, 2005.

Explanation of State Expenditures: The bill would generate no cost savings to the state PTRF. A county that designates all or part of their CEDIT revenue for PTRC would still receive its allocation from the state PTRF of the total eligible property tax replacement amount and the total homestead tax credits allowed by the county in a given year.

Department of Local Government Finance: Under the bill, the Department Local Government Finance would be required to estimate the additional distribution necessary from the state PTRF equal to the amount of a county's CEDIT distribution that would be deposited into the PTRF for property tax replacement under the provisions of the bill. (See *Explanation of Local Expenditures.*)

The Department would likely experience an increase in administrative time necessary to complete the above calculations but would likely be able to do so within existing resources.

The Department of Local Government Finance had 65 full-time employees and 2 employees on leave as of December 2004.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary:* Under the bill, a county council would be allowed by ordinance to determine and designate CEDIT revenue to replace property taxes in the county. A county could designate an amount for property tax replacement up to their CEDIT rate. Deposits of the designated CEDIT revenue would be made to the state PTRF before the certified distributions are allocated under current law. Interest earned on deposited money would be credited to the state PTRF.

The additional credit to taxpayers would be determined under the bill as follows: [A taxpayer's property taxes levied in the county]/[All taxpayers' property taxes levied in the county]*[Total PTRF deposited into the state PTRF and distributed to the county by the DLGF].

Background on CEDIT: Under current law, CEDIT rates may be set at 0.1%, 0.2%, 0.25%, 0.3%, 0.35%, 0.4%, 0.45%, and 0.5%.

Under current law, a county must adopt a rate increase in CEDIT by April 1 of a given year. In July of that year, the State Budget Agency calculates a certified distribution for the following year. (Counties do not receive any additional certified shares until January of the year following the rate increase and certified distribution.)

Current law allows, with few exceptions, a maximum combined CEDIT and County Option Income Tax (COIT) rate of 1.0%. Current law allows, with few exceptions, a maximum combined CEDIT and County Adjusted Gross Income Tax (CAGIT) rate of 1.25%.

Four counties, Fayette, Grant, Morgan, and Scott use all CEDIT revenue for homestead credits up to the total amount of the residential tax shift in those counties as a result of the 100% inventory deduction. Knox County uses CEDIT for construction and renovation of their county jail. Hancock County uses their CEDIT distribution at a rate of 0.15% for replacing public library property taxes with PTRC.

There are currently 71 counties that have adopted CEDIT. Several of those counties have also adopted either the County Adjusted Gross Income Tax (CAGIT) or the County Option Income Tax (COIT) in conjunction with CEDIT. Several counties are at their combined cap with CAGIT or COIT. Several CAGIT and COIT counties have been allowed by law to exceed their combined cap to fund construction or renovation of their county jail. Total CEDIT certified distributions for all adopted counties totaled \$197 M in CY 2005.

Only four counties have yet to adopt CAGIT, COIT, or CEDIT.

Explanation of Local Revenues: See *Explanation of Local Expenditures*.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: CEDIT counties.

Information Sources: www.in.gov/dlgf/structure/budget/inv_deduct.htm; *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2004*; State Budget Agency; Department of State Revenue statistics for Individual Income Tax 2002; US Bureau of Census.

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